

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC UTILITIES

USGEN NEW ENGLAND, INC)	
NEW ENGLAND POWER COMPANY)	DOCKET NO. ____
MASSACHUSETTS ELECTRIC COMPANY)	
NANTUCKET ELECTRIC COMPANY)	

DIRECT TESTIMONY

OF

JOHN G. COCHRANE

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DEPARTMENT OF PUBLIC UTILITIES

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1 **INTRODUCTION**

2 Q. Will you please state your name and business address?

3 A. My name is John G. Cochrane. My business address is 25 Research Drive,
4 Westborough, Massachusetts 01582.

5

6 Q. By whom are you employed and in what capacity?

7 A. I am Assistant Treasurer of New England Power Company (NEP). I am also Vice
8 President and Director of Corporate Finance for New England Power Service
9 Company (NEPSCO), as well as Treasurer or Assistant Treasurer for a number of
10 other New England Electric System (NEES) subsidiaries.

11

12 Q. Please describe your educational and professional background.

13 A. In 1979, I received a Bachelor of Arts degree in biology from Harvard University. In
14 1982, I received a Master of Business Administration degree from Northeastern
15 University. I joined NEPSCO in 1982 and have held various positions in the
16 Corporate Finance Department. In 1986, I was appointed Manager of Financial
17 Operations. After a one-year assignment as Assistant to the President and Chief
18 Executive Officer of New England Electric System (NEES), I reassumed my duties as
19 Manager of Financial Operations in 1988. In 1992, I was appointed Director of

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1 Corporate Finance. In 1993, I was appointed Assistant Treasurer of NEP and Vice
2 President of NEPSCO, as well as Treasurer or Assistant Treasurer of the previously
3 mentioned NEP affiliates.
4

5 Q. Have you previously testified before this Commission?

6 A. Yes. I have testified in financing and rate proceedings before this Commission, the
7 Rhode Island Public Utilities Commission, the Rhode Island Division of Public
8 Utilities Carrier, The New Hampshire Public Utilities Commission, the Vermont
9 Public Service Board, and the Federal Energy Regulatory Commission.
10

11 **PURPOSE OF TESTIMONY**

12 Q. What is the purpose of your testimony?

13 A. The purpose of my testimony is to describe the financing authority necessary pursuant
14 to the terms of the IPP Contracts Transfer Agreement between NEP and USGen New
15 England, Inc. (USGenNE).
16

17 **NEP FINANCING**

18 Q. Please describe the reason for NEP's financing authority request.

19 A. Pursuant to Section 8(5) of the IPP Contracts Transfer Agreement, NEP is obligated

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1 to use reasonable efforts to obtain and maintain, from all regulatory authorities having
2 jurisdiction, approvals for the issuance of up to \$100 million in long-term securities
3 for the purpose of funding Trigger Payments. Trigger Payments occur upon certain
4 trigger events such as assignment of a power purchase agreement to USGenNE,
5 termination of a power purchase agreement, or changes to an agreement resulting in
6 a reduction of the obligations under a power purchase agreement. To meet this
7 obligation NEP is requesting authority for the issuance of up to \$100 million of long-
8 term debt, which may be in the form of bonds, notes, or debentures (NEP Notes).

9

10 Q. What are the current plans regarding the timing and amounts of these issues of NEP
11 Notes?

12 A. NEP is requesting the authority to issue \$100 million of NEP Notes through
13 December 31, 2000.

14

15 Q. Would you please describe the terms of the NEP Notes?

16 A. We propose to issue and sell one or more series and/or issues of NEP Notes, not
17 exceeding \$100 million principal amount. Each new series and/or new issue of NEP
18 Notes will have various terms of maturity, but no NEP Notes shall mature more than
19 thirty years from the date as of which they are issued. A series and/or issue of NEP

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1 Notes may be noncallable or putable for all or a portion of their life. The maturities,
2 sinking funds, if any, call provisions, and put provisions for a series and/or issue of
3 NEP Notes will be determined primarily by market conditions at the time of issuance
4 as well as by the maturity schedule of NEP's other outstanding long-term debt. The
5 NEP Notes may be sold at a price, exclusive of accrued interest and expenses, of not
6 less than 95% nor more than 100% of their principal amount. The NEP Notes may be
7 issued under a mortgage indenture or other form of financing agreement.

8

9 Q. How will the NEP Notes be sold?

10 A. The NEP Notes may be sold through agents, competitive bidding, negotiation with
11 underwriters, negotiation directly with investors, to one or more agents as principal
12 for resale to investors, or a combination thereof. The method of sale will be
13 determined by NEP based on the following:

14 (1) market conditions,

15 (2) size of issue,

16 (3) maturity, and

17 (4) other factors.

18 More recently, NEP has issued NEP Notes through agents which allows NEP to
19 tailor the size of offerings, maturities and redemption terms to particular investor

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1 requirements. NEP's financing documents also allow for sales through the other
2 methods mentioned above.

3

4 Q. What in your judgment will the cost of money be in the case of proposed issues of
5 NEP Notes?

6 A. NEP's current outstanding G&Rs are rated "A2" by Moody's Investors Service, Inc.,
7 "A" by Standard & Poor's Corporation, and "A+" by Duff and Phelps, Inc. As of
8 June 30, 1997, the cost of money to NEP for a new issue of these bonds would have
9 been approximately 6.40% for a five-year term, 6.65% for a ten-year term, and 7.40%
10 for a 30-year term. However, the capital markets have been very volatile over the last
11 several years, with fairly large swings in interest rates over relatively short periods of
12 time. We are, therefore, unable to anticipate market conditions during the period that
13 we are proposing to issue the NEP Notes and are requesting that the Department's
14 Order provide for a maximum interest rate of 11%.

15

16 Q. Why is NEP asking for an exemption from Section 15 of Chapter 164 of the General
17 Laws?

18 A. NEP's readiness to respond quickly to market changes is important for the effective
19 utilization of both negotiated offerings and sales through agents. Therefore, NEP

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1 requests that the Department grant an exemption from the requirements of Section 15
2 of Chapter 164 of the General Laws that bids for the NEP Notes be publicly invited
3 so that it may respond more quickly to market changes which, as stated above, is
4 essential to the facilitation and effectiveness of negotiated offerings and sales through
5 agents.

6

7 Q. Does NEP's net utility plant support the proposed issue of the NEP Notes?

8 A. Yes. As shown on Exhibit JGC-2, NEP has an excess of net utility plant over total
9 capitalization of approximately \$563 million. The net utility plant test supports our
10 request for up to \$100 million of NEP Notes.

11

12 Q. Mr. Cochrane, is the issuance of the NEP's Notes subject to approval by any
13 regulatory agency other than this Department?

14 A. Yes. The issuance of NEP's Notes is subject to approval by the State of New
15 Hampshire Public Utilities Commission, the Connecticut Department of Public Utility
16 Control, and the Vermont Public Service Board. NEP's Notes will be registered with
17 the SEC under the Securities Act of 1933. The issuance of NEP's Notes is exempt
18 from the Public Utility Holding Company Act of 1935 ('35 Act) by virtue of Rule 52
19 promulgated thereunder.

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1 Q. In your opinion, will the issuance of the NEP Notes be in the public interest?

2 A. Yes.

3

4 Q. Does this complete your direct testimony?

5 A. Yes, it does.

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Financial Exhibits

NEW ENGLAND POWER COMPANY
Statement of Income
For the Twelve Months Ended June 30, 1997
(Actual and Pro Forma)
(Unaudited)

	Actual -----	Adjustments -----	Pro Forma -----
Utility Operating Income -----			
Operating revenues	\$1,658,945,679 -----		\$1,658,945,679 -----
Operating expenses:			
Fuel for generation	381,343,826		381,343,826
Purchased electric energy	530,025,146		530,025,146
Other operation	227,398,199		227,398,199
Maintenance	82,650,990		82,650,990
Depreciation and amortization	94,583,839		94,583,839
Taxes, other than income taxes	67,489,431		67,489,431
Income taxes - federal	81,297,519	\$(2,625,000)	78,672,519
Income taxes - state	14,382,084	(316,875)	14,065,209
Provision for deferred federal income taxes	23,387,208		23,387,208
Provision for deferred federal income taxes - credit	(31,126,107)		(31,126,107)
Investment tax credit adjustment - net	(2,023,182)		(2,023,182)
	-----	-----	-----
Total utility operating expenses	1,469,408,953	(2,941,875)	1,466,467,078
	-----	-----	-----
Net utility operating income	189,536,726	2,941,875	192,478,601
	-----	-----	-----
Other Income and Deductions -----			
Equity in income of nuclear power companies	4,962,370		4,962,370
Other income (expense), net	(2,673,493)		(2,673,493)
	-----	-----	-----
Operating and other income	191,825,603	2,941,875	194,767,478
	-----	-----	-----
Interest Charges -----			
Interest on long-term debt	40,304,269	7,500,000	47,804,269
Amortization of debt discount and expense	768,289		768,289
Amortization of loss on reacquired debt	2,401,414		2,401,414
Other interest	7,124,143		7,124,143
Allowance for borrowed funds used during construction - credit	(974,820)		(974,820)
	-----	-----	-----
Net interest charges	49,623,295	7,500,000	57,123,295
	-----	-----	-----
Net income	142,202,308	(4,558,125)	137,644,183
Dividends - preferred stock	2,075,324		2,075,324

Balance available for common stock	----- \$ 140,126,984 =====	----- \$(4,558,125) =====	----- \$ 135,568,859 =====
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NEW ENGLAND POWER COMPANY
Balance Sheet
At June 30, 1997
(Actual and Pro Forma)
(Unaudited)

ASSETS AND OTHER DEBITS

	Actual	Adjustments	Pro Forma
-----	-----	-----	-----
Utility Plant			

Utility plant	\$3,033,643,742		\$3,033,643,742
Less accumulated provisions for depreciation and amortization	1,157,487,877		1,157,487,877
	-----	-----	-----
	1,876,155,865		1,876,155,865
Construction work in progress	25,141,696		25,141,696
	-----	-----	-----
Net utility plant	1,901,297,561		1,901,297,561
	-----	-----	-----
Investments			

Nuclear power companies, at equity	49,463,309		49,463,309
Nonutility property and other investments, at cost	30,783,567		30,783,567
	-----	-----	-----
Total investments	80,246,876		80,246,876
	-----	-----	-----
Current and Accrued Assets			

Cash	737,980		737,980
Accounts receivable:			
Affiliated companies	236,823,978		236,823,978
Others	26,984,037		26,984,037
Fuel, materials, and supplies, at average cost	64,816,782		64,816,782
Prepaid and other current assets	23,059,082		23,059,082
	-----	-----	-----
Total current and accrued assets	352,421,859		352,421,859
	-----	-----	-----
Deferred Debits			

Accrued Connecticut Yankee Costs	102,172,600		102,172,600
Accrued Yankee Atomic Costs	44,504,900		44,504,900
Unamortized debt expense	4,079,996		4,079,996
Miscellaneous deferred debits	113,476,944	\$100,000,000	213,476,944
Unamortized loss on reacquired debt	30,221,426		30,221,426
	-----	-----	-----
Total deferred debits	294,455,866	100,000,000	394,455,866

Total assets and other debits	----- \$2,628,422,162 =====	----- \$100,000,000 =====	----- \$2,728,422,162 =====
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NEW ENGLAND POWER COMPANY
Balance Sheet
At June 30, 1997
(Actual and Pro Forma)
(Unaudited)

LIABILITIES AND OTHER CREDITS

	Actual	Adjustments	Pro Forma
	-----	-----	-----
Proprietary Capital			

Common stock issued	\$ 128,997,920		\$ 128,997,920
Preferred stock issued	39,666,000		39,666,000
Premiums on capital stocks	86,779,300		86,779,300
Other paid-in capital	289,818,180		289,818,180
Retained earnings	392,533,592		392,533,592
	-----	-----	-----
Total proprietary capital	937,794,992		937,794,992
	-----	-----	-----
Long-Term Debt			

Bonds	649,850,000	\$100,000,000	749,850,000
Less unamortized discount on long-term debt	2,236,981		2,236,981
	-----	-----	-----
Total long-term debt	647,613,019	100,000,000	747,613,019
	-----	-----	-----
Current and Accrued liabilities			

Long-term debt due in one year	53,000,000		53,000,000
Accounts payable	102,486,774		102,486,774
Accounts payable to associated companies	22,331,264		22,331,264
Notes payable	127,225,000		127,225,000
Notes payable to associated companies	5,700,000		5,700,000
Taxes accrued	1,719,323		1,719,323
Interest accrued	8,759,600		8,759,600
Dividends declared	35,474,428		35,474,428
Tax collections payable	135,449		135,449
Miscellaneous current and accrued liabilities	8,659,673		8,659,673
Obligations under capital leases - current	4,330,860		4,330,860
	-----	-----	-----
Total current and accrued liabilities	369,822,371		369,822,371
	-----	-----	-----
Deferred Credits			

Deferred federal and state income taxes	378,083,406		378,083,406
Unamortized investment tax credits	54,474,485		54,474,485
Accrued Connecticut Yankee costs	102,172,600		102,172,600

Accrued Yankee Atomic costs	44,504,900		44,504,900
Other reserves and deferred credits	93,956,389		93,956,389
	-----	-----	-----
Total deferred credits	673,191,780		673,191,780
	-----	-----	-----
Total liabilities and other credits	\$2,628,422,162	\$100,000,000	\$2,728,422,162
	=====	=====	=====

NEW ENGLAND POWER COMPANY

The pro forma adjustments to show the estimated effect of the proposed transactions as applied to the foregoing Statement of Income for the twelve months ended June 30, 1997 are as follows:

Increase - Interest on long-term debt	\$7,500,000
---------------------------------------	-------------

Interest calculated on \$100,000,000 at a rate of 7.50 percent.

Decrease - Income taxes - federal	\$2,625,000
Decrease - Income taxes - state	\$ 316,875

To reflect the federal and state income tax effects as a result of the above adjustments.

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The pro forma adjustments to show the estimated effect of the proposed transactions on the foregoing Balance Sheet at June 30, 1997 are as follows:

Debit - Deferred Debits	\$100,000,000
Credit - New Bonds	\$100,000,000

To reflect the proposed issue and sale of \$100,000,000 of new bonds at par, the proceeds of which are to be used for the funding of Trigger Payments in accordance with the provisions of the IPP Contracts Transfer Agreement, and the recording of a corresponding deferred debit on the balance sheet.

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Comparison of Net Utility Plant to
Total Capitalization

NEW ENGLAND POWER COMPANY

Comparison of Net Utility Plant to Total Capitalization

	<u>Actual at June 30, 1997</u>
Net Utility Plant:	
Utility Plant at Original Cost	\$3,033,642,651
Less Property under Capital Leases	<u>(67,012,492)</u>
Total Utility Plant at Original Cost (ex. Cap. Leases)	\$2,966,630,159
Less:	
Accumulated Provisions for Depreciation and Amortization	<u>(1,157,487,877)</u>
Net Utility Plant (ex. Cap. Leases and Construction Work in Progress)	\$1,809,142,282
Capitalization:	
Common Stock	\$ 128,997,920
Premium on Common Stock	86,779,300
Other Paid-In Capital	289,818,180
Preferred Stock	39,666,000
Long-Term Debt Outstanding	<u>700,613,019</u>
Total Capitalization	\$1,245,874,419
Excess of Net Utility Plant over Total Capitalization	<u>\$ 563,267,863</u>